

What after Zarqawi?

In the final analysis, Zarqawi's death is unlikely to have any significant impact on the extent of the Iraqi insurgency, that is manned neither by Saddamists seeking to restore the past nor by Bathists for ideological attachment nor by al-Qaeda followers. It is primarily a rebellion by the Sunnis for their lost predominance and by the other Iraqis against continued foreign occupation which is yet to deliver political stability, personal security, and economic benefits.

KAZI ANWARUL MASUD

ABU Musab al-Zarqawi, the al-Qaeda points-man in Iraq, is dead. But the naming of his successor, Abu Ayub al-Masri or Abu Hamza al-Muhajer as given in the al-Qaida web site (nationality unknown), "one of the most effective terrorist and guerrilla leaders in history," leads one to believe that the insurgency being mostly cause-driven and its network being fed by deep-seated family, tribal and local loyalties, death or capture of an insurgent leader who is swiftly replaced by others, may not necessarily have a decisive impact on the extent of insurgency in a country.

President Bush's cautious reaction to Zarqawi's death is, therefore, understandable because the exit of Zarqawi may at the same time blunt the US-inspired campaign that the insurgency was being led and fed by "foreigners" (Zarqawi was Jordanian national).

Zarqawi's transformation from a drinking and tattooed teenager, both taboos in Islam, to his fiendish

acts of beheading innocent captives were truly remarkable. The Oxford Research Group's profoundly thought-provoking report on "Global Response to Global Threat" raises serious questions as to the validity of post-9/11 security discourse that causes of terrorism are not worth discussing, that terrorism is invariably non-governmental, and that counter-insurgency should predominate over all other global challenges.

The report shows that international terrorism is a relatively minor threat compared to the future determinants of global insecurity that will be caused by climate change, competition over resources, marginalization of the majority of the world, and global militarization. Current security orthodoxy giving disproportionate weight to military response to meet international terrorism may provide short-term relief. But the Oxford Research Group feels that the war on terror is distracting governments from genuine threats that humanity faces today and the threats will continue to degenerate

unless redressive measures are taken.

No one, least of all, the underdeveloped nations, would want historian Niall Ferguson's prediction of the forgotten parts of the world to suffer from endemic plunder and strife and retreat of civilization to a few fortified areas to come to pass. But then it is questionable whether the use of massive military might to contain interminable stream of insurgency, as in Iraq, will be an adequate answer to the ushering in of a period of hegemonic stability where the principal actor views international law as too amorphous to merit US consent and as intrusive into US domestic affairs and hence has refused to sign on to the Kyoto Protocol and the International Criminal Court.

Sadism at Abu Ghraib apart, the Bush administration has been guilty, in the words of Lisa Hajjar of "repeatedly employing interrogation tactics that constitute torture and inhuman treatment and are proscribed by the Geneva Conventions and US laws." She argues that even if one were to

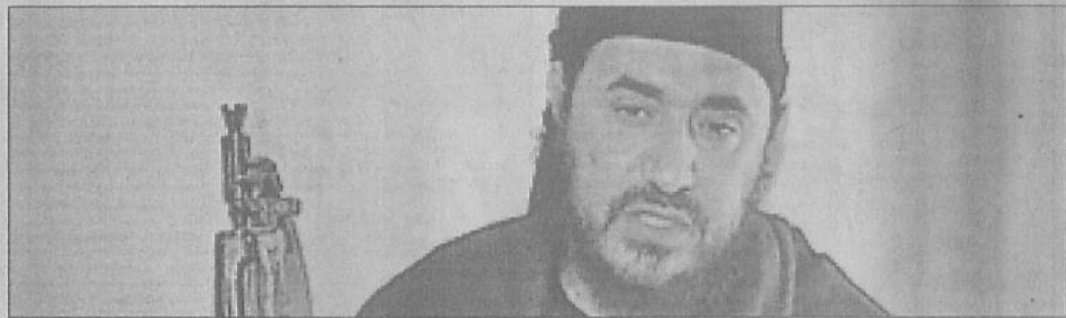
accept the Bush administration's argument that Iraqi detainees are "unlawful combatants" the universally recognized baseline standard of treatment of prisoners in war is Geneva Convention which prohibits all detained persons regardless of status not to be subjected to "cruel treatment and torture" and "outrages upon personal dignity, in particular humiliating and degrading treatment."

But then the Iraq invasion without UNSC sanction and the doctrine of pre-emption (despite Colin Powell's assurance that the doctrine is primarily aimed at non-state actors/terrorists), there is growing distrust in the international community about the Bush administration's respect for international law and its desire for peaceful resolution of conflict. In a recent policy analysis, Dr. Cindy Williams has demonstrated that America's enormous military advantage has not been translated into stopping "grinding insurgency" in Iraq or security at home or regaining America's global influence. Noteworthy is the fact that the US's official development assistance is less than half the average of the European countries and nearly at the bottom of the world's major donors.

The US's anachronistic conflict resolution policy is further demonstrated by the fact that in FY06 while National Defense gets about five hundred billion dollars, international affairs is allocated only thirty billion dollars (\$8.7 billion

for the conduct of foreign affairs). US National Security Council Strategy declares Iraq is the central front in the global war on terror and victory in Iraq is a vital US interest. That this policy has reduced support for the US at home and abroad is clearly evident. But there are believers like Nixon's Defense Secretary Melvin Laird who speaking from his Vietnam experience has advised against "Americanization" of the Iraq war, but at the same time has asked President Bush to articulate a simple message, that the US is not fighting in Iraq for giving the Iraqis the right to vote but to protect "Western democracy, the global economy, and all else that is threatened by the spread of barbarism in the name of religion." Laird's advice is reminiscent of the argument advanced by John Foster Dulles for the creation of NATO to defend "our cherished freedoms" with military might, religious faith, and a positive demonstration of political and social system as counter-attraction to communism.

The sectarian conflict in the Muslim world and the mainly Sunni insurgency in Iraq have proved that the Bush administration is not going to win the hearts and minds of the Iraqis. The initial mistake committed by the Coalition Provisional Authority chief Paul Bremer, pointed out by Larry Diamond who briefly served Bremer, was to regard all Sunnis as Saddamists and by extension as terrorists. Subsequent referendum,



elections, and government formation have not fully done away with the Sunni grievances of political exclusion.

But the exit of Zarqawi may have a salutary effect on the Iraqi insurgency because of the disenchantment felt by many Sunnis due to Zarqawi's intolerant interpretation of Islam, his criticism of religious scholars who in his eyes were less supportive of the Iraqi insurgency and violence against the Sunnis who opted for participation in the political process.

Then again, Zarqawi's Tandhim al-Qaida claiming to have between 5,000 to 15,000 fighters had been shaped by the personality of its founder. Besides, many terrorist acts were credited to Zarqawi because of Washington's desire to further demonize Zarqawi and by the perpetrators who found the acts to be controversial even to the extremists. It is questionable whether Zarqawi's death would necessarily see a reduction in Iraqi insurgency, but one may safely

assume that the brutalities inflicted upon the innocent captives like beheading may become a thing of the past.

Israeli political analyst Reuven Paz views the struggle in Iraq as a "return home" of the predominantly Sunni Jihadists after years of struggle in "exile" in Afghanistan, Bosnia, Kosovo, and Central Asia. These Jihadists filled the vacuum created by the short-sighted US policy of elimination of the Iraqi army and security forces due to their alleged allegiance to Baathism. This controversial US policy has some merit because the threat to the US interests in the Persian Gulf comes less from Iranian theocracy that has lost fervor and more from the Sunni Islamic radicalism.

In the final analysis, Zarqawi's death is unlikely to have any significant impact on the extent of the Iraqi insurgency, that is manned neither by Saddamists seeking to restore the past nor by Bathists for ideological attachment nor by al-

Qaeda followers.

Though the tendency to interpret the current events through the prism of the Crusades invoking Quranic verses urging Iraqis to unite against American invaders undeniably provides a religious facet to the insurgency, it is primarily a rebellion by the Sunnis for their lost predominance and by the other Iraqis against continued foreign occupation which is yet to deliver political stability, personal security, and economic benefits.

Given the existential tribal social system in Iraq (as in many other countries of the Greater Middle East) the Bush administration's missionary zeal to spread democracy in the region is unlikely to bear fruit in the near future. The most that can be expected from the exit of Zarqawi from the scene is a comparatively less brutal face worn by the insurgents in Iraq.

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The beginning of the end

We have seen the workers living standards being compared to the standards of the owners, but has anyone compared the garment workers to those of the rest of the industries in this country. The workers in this industry are the highest paid at their skill and education level in comparison to any other industry. They still get more salary on time and higher benefits and bonuses than any other industry in our nation. The industry has provided phenomenal opportunity to the people, enabling many workers to increase their earnings from mere thousands to lakhs.

WASIM RAHMAN

ON the face of it, the recent tri-partite MOU for the garment industry would appear to be a milestone achievement in the enhancement of worker rights in Bangladesh. Though it might be unpopular in today's environment, I beg to differ.

Till now you have heard from the "intelligentsia" of our society, who are full of sympathy for the garment workers and have welcomed the MOU with both hands. Let me voice some concerns on behalf of the people within the industry. Hard working people, but not as able to vocalise their concerns. My feelings may not conform to conventional thought, but at least they will provide some food for thought.

Throughout the course of these incidents the popular support seemed to be behind the workers, while the owners have been widely chided for exploiting and abusing them. This is now commonly accepted by people outside our industry. Society feels that the owners are making abnormal

profits at the expense of the industry workers.

It may be hard for people to believe but profits in the garment industry are not abnormal. Rather, the percentage of returns is minimal in relation to the outlay and risk of the entrepreneurs. There are many other industries where the percentages of profits are extremely high, such as real estate and telecom. The wealth that you see in this industry is because of the tremendous volume generated, which is possible due to the availability of the one resource that Bangladesh could tap -- the abundant labour force.

It is this industry that earns 80% of the revenue for our country. It is this industry that is enabling whatever growth, business, and advancement we are seeing today. Bangladesh still lags far behind in development in comparison to many of our neighbours and certainly there are many inequalities, inefficiencies and inadequacies in our society -- but whatever development we do enjoy today has been due to the finance injected into our economy from the earnings of this industry.

Directly or indirectly, whatever you see when you look around you today is only because of the apparel trade in Bangladesh. Industries like telecoms etc use a fraction of the labour force while taking out much more money from our economy.

It has been a thankless job for the entrepreneurs and pioneers of the apparel industry who have enabled all this, and instead of receiving recognition from the nation they are being berated by our society and government. When most of the wealth has been brought in by this industry, doesn't it stand to reason that a majority of the wealthy will also be from this industry? People are constantly pointing fingers at apparel industry owners for having a large proportion of the luxury assets. But if 80% of revenue is coming through them, why can it not be accepted that most of the assets will also belong to them? It is not a free lunch they are getting, they have worked decades for this and the benefits are being reaped by them -- as well as the rest of the nation. They are the goose that has consistently laid the golden eggs

for this nation.

That is my case for the owners, but of course I acknowledge the injustice to the workers. One accepts that a large number of factories are not responsible and have neglected to ensure the welfare of the factory workers (though, on the other hand, I have never heard that a number of factories are also responsible and welfare oriented, otherwise we would not have so many compliant factories producing for major brands). One accepts that the workers, who are the backbone of this industry, need protective laws. Weekly holidays, less working hours, on-time wages, and also higher wages need to be immediately implemented.

It is truly shocking that wages have not been increased in over 17 years while the cost of living and prices of essentials have spiralled. In the last few years the increase in prices has been brutal even to the affluent, and fatal for the poor. But at the same time this industry certainly cannot handle a three-fold jump in wages that one is hearing about. This will cause more damage than good. Do you kill the golden egg goose just because it has become too expensive to feed it? Wages needed to be raised gradually over the years; and this should have been done long ago by our government. A gradual increase would have deterred the inefficient factories while fostering the efficient ones. What was needed was not done; now a sudden rise will strangle and choke the one industry that

carries our future in its hands.

The other thing that is being established now is the power of unions. The rise of unions has been the downfall of industry in every industrialised nation. One can cite many examples -- our own jute industry, the American airline industry, the American auto industry -- all perished or are perishing due to the politics of unions. Even in India, despite a large technical work force, the apparel industry could not compete with us due to the presence of unions. I differ with anyone who claims that the planting of unions in the factories will serve to improve the plight of workers in this industry. Unions will only serve to fill the pockets of the union leaders, while the condition of the general workers will remain the same. In fact, once unions are entrenched, let me even venture and state that the conditions of the workers will deteriorate as it will eventually lead to widespread closure of factories and loss of jobs. In this country which desperately need these jobs, the establishment of unions in garment factories will prove lethal.

The way to address the current crisis and needs of our workers is not by handing over power to the uneducated and politically motivated union leaders, people who are otherwise unproductive and who most certainly will misuse this power. In my opinion, the way to handle this is for the government to step in and immediately ensure that all workers return to work with assurances

that their issues will be addressed on priority. Then, meetings should be held between all the parties. Directives must be issued by the government which would address the issues of rights and higher wages immediately. These would incorporate all the workers' reasonable demands and take into account the current requirements of the workers, specially the issue of wages, without hampering the growth and stability of the apparel industry. Factories would be given a time-frame (say 3 months) in which to implement these laws and then regulatory groups (comprising of the 3 parties) would need to be formed to implement and enforce these changes in the factories. Any factories unable to comply could be shut down. It is easy to speak about all this in a single paragraph, but not as easy to implement. I strongly feel that a proper government initiative would have been much more progressive than the way it was currently handled -- by practically throwing the owners to the workers' mercy.

Once again our government failed to step in and anarchy ruled. This crisis in the garment industry will soon turn out to be one of the most critical issues in decades for Bangladesh's growth and financial health and stability. Yet we did not see the Prime Minister attend to this even once. What should have been a high priority task for her was delegated to some junior ministers and the entire burden of responsibility was left for the owners to shoulder.

Does she not realize that this is the sector bringing in 80% of the country's revenue? Clearly, the coming elections played a great part and the thought of a few thousand owner votes versus millions of worker votes induced the government to side with the workers. Well, we are used to that in Bangladesh by now. It makes no difference to the politicians whether Bangladesh is a producing nation or a begging one; they will get their slice of the pie, no matter what.

We have seen the workers living standards being compared to the standards of the owners, but has anyone compared the garment workers to those of the rest of the industries in this country. The workers in this industry are the highest paid at their skill and education level in comparison to any other industry. They still get more salary on time and higher benefits and bonuses than any other industry in our nation. The industry has provided phenomenal opportunity to the people, enabling many workers to increase their earnings from mere thousands to lakhs. It has enabled legions of our educated youths to earn thousands of takas and dollars thereby creating a budding middle class. If has supported arts, crafts, and also many other supporting industries. Will all this be possible in our country once the garment industry disappears?

I say "once the garment industry disappears" because I would like to put my money where my mouth is and make some predic-

tions. I predict that, due to the inept handling of the situation by our government and the way the owners were muscled into accepting all demands as is, over 20% of the units in this industry will close down within the next two years. Eventually the uncertainty will also drive away these same buyers who are clamouring for "worker rights." They have allegiance only to profit and performance -- not to the Bangladeshi people.

And hence I predict, the garment business will be halved in the next 5 to 7 years. The massive job losses will eventually ratchet up our poverty levels which could well lead to more unrest, and possibly even culminate in civil war.

I pray to God that I am proved wrong and that one day I will have to eat my own words; nothing would make me happier. But somehow I feel that I am not wrong. I feel that once again the people of Bangladesh have managed to subvert their own future by allowing themselves to be misled by criminal leaders.

What was leading to more golden opportunities ahead may now end up in an ash-heap of failure and a day will come when these same people destroying the industry even as I write today, will regret what happened these last few weeks. If that day comes, my thoughts will lead me back to June 12, 2006, the day the tri-partite "MOU" was signed, which I felt that day to be the beginning of the end.

Wasim Rahman is a textiles entrepreneur.

Manufacturing sector in this year's budget

The Finance Minister pronounced that the key objective of this budget is poverty reduction. Poverty reduction is only possible by the development of the manufacturing sector which is the basis of sustainable economic development.

ABDUL KHALEK

THE manufacturing sector is the base for the sustainable economic development of a nation. The contribution of the manufacturing sector to the GDP of Bangladesh was 17% in FY 2005-06. Out of fifteen sectors identified for computing national income, the contribution of the manufacturing sector is the highest. In FY 2005-06, the growth rate in the manufacturing sector is estimated to be 10.45%, which was 8.53% in the previous financial year. This trend in growth has accelerated the pace of economic development and made significant contribution towards achieving 6.7% GDP growth of FY 2005-06. In absolute figure the contribution of manufacturing sector to the GDP of FY 2006-07 would be 79,046 crore. The manufacturing sector has also been the highest job provider in recent years. Being the engine of economic development, the manufacturing sector deserves fiscal, monetary and infrastructure policies support of the Government.

The Finance Minister has proposed Tk. 69,740 crore budgets for FY 2006-07. The size of the development budget is Tk. 26,000 crore out of which the following have been allocated for manufacturing sector:

- Tk. 100 crore as refinancing scheme for Small and Medium Enterprises (SME) through

Bangladesh Bank. World Bank and Asian Development Bank will also contribute Tk. 280 crore to the scheme.

- Tk. 100 crore to equity development fund for the development of agro-product processing and software industries.
- Tk. 100 crore for agro-based industries assistance programme.
- Tk. 20 crore to create skill development fund for the readymade garments workers.

Thus, the total allocation, including the contribution of World Bank and Asian Development Bank, for the manufacturing sector in FY 2006-07 stands at Tk. 600 crore which is only 2.30% of the proposed development budget. This 2.30 % allocation for the manufacturing sector in context of its 17% contribution to GDP is very negligible.

The manufacturing sector is a capital-intensive sector. Investment comes largely from domestic savings. Over the last two decades, commensurate with GDP growth, domestic savings marked substantial improvement. Sponsor, security market, bank and financial institutions are the prime source of capital for the manufacturing sector. An investor assesses the risk and returns of available avenues and decides on the best option.

Investment in the manufacturing sector is riskier than in any other sector. Generally, investor add risk premium to the rate of

interest on long term government securities in arriving at expected rate of return for the assessment of the viability of investment in manufacturing sector. Accordingly, the cost of capital of a manufacturer also varies with the change in the rate of interest on government securities. Further, investment in savings certificates gives more fiscal benefits than the investment in manufacturing sector.

Marking a 16.87% increase, during the period from July to April 2006, the net official borrowing through sales of savings certificates reached to Tk. 25,520 crore. During the period the investors encashed savings certificates worth Tk. 89,860 crore against total sales of Tk. 115,380 crore. Thus, overall sale of savings instruments of the period was 35% higher than the corresponding period of the previous year. The Government raised the rate of interest on different types of savings instruments by 1.5% at the beginning of 2006. The increase in Government borrowing through savings instruments coupled with interest rate acceleration has made credit for the manufacturing sector costlier. This will also hinder the capital inflow of the manufacturing sector from security market. The budgeted borrowing for FY 2006-07 was fixed conservatively at the current level. However, its impact upon the investment in manufacturing sector will remain negative unless

the rate of interest on savings instruments is reduced.

Bank borrowing is the key source of finance for the manufacturing sector. The scope for borrowing, as well as cost of finance, is significantly influenced by Government borrowing. For FY 2005-06 the budgeted borrowing from the banking system was Tk. 3,446 crore. Superseding the budget by 46.17%, the Government revised the budget to Tk. 5,037 crore. This indicates that the borrowing from the banking system has gone out of the control of the Government. For FY 2006-07 borrowing from the banking system remains unchanged. If the estimates and control are as weak as they were in FY 2005-06, it will make bank borrowing very difficult for the manufacturing sector. The borrowing by Bangladesh Petroleum Corporation may create further stress upon the credit flow to manufacturing sector.

Deficit budget and bank borrowing are common practice in world economy. What is needed, is to keep the bank borrowing within a tolerable limit. Private sector credit flow has declined substantially in the second half of current fiscal year largely because of excessive borrowing by the Government from the banking system. Immediate measures are essential to correct the situation.

Power is an essential element for the manufacturing sector. For FY 2006-07, the Government has allocated Tk. 100 crore for power rehabilitation programme, Tk. 3,586 crore for the improvement of power generation, transmission and distribution and Tk. 100 crore for energy development fund to promote use of solar power and

other renewable sources of energy. The manufacturing sector suffered huge production loss due to the power crisis this year. The budget allocation seems inadequate to bridge the shortage of power.

The Government has planned for the bifurcation of Chittagong customs house into two, one for import and other for export. This administrative reform would expedite the customs clearance procedure and be helpful to the manufacturing sector.

The Government has proposed the reduction of the rate of duty from 6% to 5%. This rate is applicable to imported basic raw material and machinery. The reduction will bring marginal improvement in the price of locally manufactured products. A further reduction in duty, coupled with the withdrawal of infrastructure development surcharge from basic raw material, could ensure meaningful support to the manufacturing sector. The rate of duty leviable on intermediate material was also earmarked for reduction from 13% to 12%. This would have mixed effect upon the manufacturing sector. This will dent the competitiveness of intermediate material manufacturer on the one hand and favour the consumer of such material on the other. The situation could be rectified by micro level review.

The Government has proposed reduction of supplementary duty from 35% and 25% to 20% and 15%. This reduction would be a blow to the local manufacturer of relevant items. Generally supplementary duty is applicable to luxury items and socially undesirable items. There is no ground for such reduction that follows the

prescription of donor agencies.

The proposal for the withdrawal of import duty and AIT from capital machineries, their accessories and other input for poultry industries and machineries for the manufacturing of poultry feed, reduction in the import duties of certain basic raw material of plastics and melamine industries, enhancement of import duties of some plastic product like stopper, lid, cap etc, reduction of the import duty on diodes, transistors, semi conductor device and compressors, withdrawal of special rebate facilities from IPS/UPS of a capacity not exceeding 2000 KVA, withdrawal of all duties and taxes from certain spares required by readymade garments, textiles, hosiery, label, Terry towel industries and affluent treatment plant, withdrawal of all duties and taxes from synthetic filament tow, one of the basic raw materials of hosiery industry, withdrawal of the conditions for the exemption of duties and taxes on the machinery and spares and imposition of 15% supplementary duty on advertising materials, commercial catalogues etc would be supportive to the manufacturing sector.

The tax structure in the corporate sector remains unchanged. It is common understanding that the effective tax rate on business is much higher as legitimate expenditures are disallowed under the discretionary power given to tax administration.

The Government has proposed continuation of the tax concession to black money if it was invested in the purchase of land, apartment and car, whereas the Finance Act 2005 discontinued the facility for investment of such money in

industry. Any scheme for the whitening of black money is immoral, and disappointing to honest taxpayers. However, prioritisation of non-productive sector for such benefit is not good for the manufacturing sector.

Continuation of the benefits for agro processing, jute and textile industries up-till June 30, 2008 reduced tax rate of 15% for diamond cutting and polishing industries, provision for prompt disposal of tax and VAT cases, expansion of perquisite limit and its re-definition are welcome proposals for the manufacturing sector.

Unlike the trading and service sector, an entrepreneur has to wait for a long time to get returns from a manufacturing venture. Sometimes it takes years together to reach break-even point. The Government has proposed charging a minimum tax of half percent of turnover or Tk. 5,000 whichever is higher. The provision is a distortion of the taxation system and will deter the development of the manufacturing sector. Apparently, the proposal is to catch the assessee, who evade tax by showing loss for years together. However, to address the genuine case of an honest manufacturer the proposal needs recasting. There should be a time limit for the continuation of loss.

Tax holiday, investment allowance and accelerated depreciation were the three core benefits traditionally offered by the Government to attract investors to the manufacturing sector. The tax holiday benefit was withdrawn from expansion unit by Finance Act 2002, from the backward linkage industry under common sponsor director by Finance Act 2003 and restricted to

limited area by Finance Act 2005. Investment allowance and accelerated depreciation allowance for the expansion of tax holiday unit were also discontinued by Finance Act 2005. Thereafter accelerated depreciation is the only benefit left for the manufacturer.

Since depreciation is restricted to the cost of capital item, the benefit of accelerated depreciation is only the time value of deferred tax. This accelerated depreciation is also a substitute for tax holiday. Government has proposed to allow the benefits over a period of three years instead of first year. The proposal for squeezing this last benefit for investment in manufacturing sector is difficult to justify in context of the facilities available in competitive economies.

The Government has proposed some restriction on the overseas travelling of any company executive. Any expenditure by way of overseas travelling exceeding one percent of disclosed turnover shall be disallowed. Further, 50% of more than two overseas tour expenses of a director of a company shall be treated as deemed income. This will create mounting difficulties for the export-oriented manufacturer who needs frequent visit abroad to procure business.

The Finance Minister pronounced that the key objective of this budget is poverty reduction. Poverty reduction is only possible by the development of the manufacturing sector which is the basis of sustainable economic development. In view of the above, further considerations for the manufacturing sector are highly recommended to achieve the said objective.

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